



BP Target Neutral Advisory and Assurance Panel Public Statement 2018

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The BP Target Neutral (BPTN) Advisory and Assurance Panel (AAP) provides independent assurance, advice and challenge for the BP Target Neutral programme. The Panel reviews the programme's performance against its stated aims in line with accepted standards for environmental and social rigour and makes recommendations on how the programme can be improved and strengthened, both in itself and in the context of wider developments in the climate change arena. The statement outlines the Panel's opinion on the programme for the period from January to December 2018.

Changes to the Panel for 2018

In 2018 the Panel bid farewell and expressed its gratitude to Sir Tim Smit, co-founder of the Eden Project. Tim served as a Panel member for over 7 years and made a valuable contribution, lifting the profile of the work of Target Neutral both internally and externally. BP and Panel members thank Tim for his wisdom and advice as a critical friend. Panel membership will be reviewed in 2019.

2018 - The global climate challenge reframed

In October 2018 the Intergovernmental Panel on Climate Change (IPCC) published a landmark report¹ on the need to limit global warming to 1.5°C. The report stated that achieving this would require rapid, far-reaching and unprecedented transformations in all aspects of society.

The report highlighted a number of climate change impacts that could be avoided by limiting global warming to 1.5°C compared to 2°C, or more. For instance, by 2100, global sea level rise would be 10 cm lower with global warming of 1.5°C compared with 2°C. The likelihood of an Arctic Ocean free of sea ice in summer would be once per century with global warming of 1.5°C, compared with at least once per decade with 2°C. Coral reefs would decline by 70-90 percent with global warming of 1.5°C, whereas virtually all (> 99 percent) would be lost with 2°C. The report sets out that the knock-on impacts on human health, nutrition and security are more pronounced at 2°C of warming as compared to 1.5°C.

The report acknowledged that actions are underway around the world to cut greenhouse gas emissions but that these still fall well short of what is needed to limit global warming to 1.5°C. The report called for "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. Global net human-caused emissions of carbon dioxide (CO₂) would need to fall by at least 45 percent from 2010 levels by 2030, reaching 'net zero' around 2050, when any remaining emissions must be balanced by removing CO₂ from the air.

While recognising that a transformation on the scale required is likely to be difficult and potentially disruptive, the Panel believes that overwhelming evidence of the need for change presented in the report should guide the future work of BPTN.

2018 – The evolving carbon agenda in BP

¹ <https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/>



Early in 2018 the Panel welcomed BP Group's carbon strategy: 'Advancing the Energy Transition'².

The strategy marked a fresh approach for BP's carbon agenda. Unlike the 'Beyond Petroleum' programme of the 2000s which focused on renewables investment, the 2018 strategy considers a business-wide transition.

The strategy is built around a 'RIC' framework³, designed to 'Reduce' operational emissions, 'Improve' low carbon products for customers and 'Create' new low carbon businesses.

Key targets for 'Reduce' include a commitment to zero net growth in operational emissions out to 2025 based on 2015 levels, 3.5 million tonnes of sustainable scope 1 and 2 GHG reductions by 2025 and a methane intensity target of 0.2% for scope 1 emissions.

In 'Improve', BP is committed to three objectives: i) providing lower emissions gas; ii), to develop more efficient fuels, lubricants and petrochemicals; and iii) to grow low carbon offers for customers.

The formal inclusion of offsetting as part of BP's 'carbon toolkit' is important, because it formalises the strategic role of BP Target Neutral in BP's energy transition. The Panel feels that it is important that BP Group benefit as much as possible from the lessons produced by over a decade's work by BPTN and ensure that all offsets used meet standards at least as high as those used by BPTN.

The third area in the RIC framework is 'Create'. Here, BP sets out its goals to create value in this important growth category including \$500 million annually for investment in low carbon and renewables. This is split in two parts, with \$200 million earmarked for investment to incubate and grow lower carbon solutions in: carbon management; advanced mobility; bio and low carbon products; digital transformation; and low carbon power and storage. The balance of \$300mm annually will go towards investment in renewables where BP already has presence and expertise. This includes bio-ethanol from sugar cane, biopower from bagasse, building on the wind business in the US and the development of the Lightsource Solar business in Europe.

These ambitions have been underpinned by BP's new Advancing Low Carbon (ALC) accreditation programme which is specifically designed to encourage every part of BP to pursue lower carbon opportunities, by providing a framework to highlight activities that demonstrate a better carbon outcome. Qualifying activities range from emissions reductions in BP's operations to

² <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/sustainability/group-reports/bp-advancing-the-energy-transition.pdf>

³ <https://www.bp.com/energytransition>

Total Tonnes CO₂e offset through Target Neutral

2006/2007.....	83,865
2008.....	69,587
2009.....	46,418
2010.....	29,290
2011.....	86,579
2012.....	164,822
2013.....	142,579
2014.....	675,954
2015.....	520,502
2016.....	641,193
2017.....	714,004
2018.....	860,875

Cumulative tonnes offset to date 4,035,671 mt CO₂e
Total business investment in carbon reduction projects since 2006: € 16.8m

* BP Target Neutral launched in late August 2006



carbon neutral products, from investments in low carbon technologies to BP's renewables businesses. The programme and associated criteria are independently assessed and assured by Deloitte.

As part of the selection process the BP Target Neutral Panel provided feedback on the accreditation shortlist. This is a valuable exercise that provides the BP ALC team with an external context which helps to evaluate the submissions with a different perspective. Once the final submissions were agreed by the Panel, they were then passed on to Deloitte for final independent assurance before publication. bp.com/advancinglowcarbon.

Informing the role of the Panel going forward

With BP Target Neutral now part of a broader set of objectives in support of the energy transition, the Panel – together with BP management - reviewed its remit and discussed a broader scope. As a result, towards the end of 2018 the decision was made to re-frame the Target Neutral Assurance and Advisory panel as the 'BP Carbon Advisory Panel – Products and BP Target Neutral', with a mandate to advise BP on a broader range of customer-facing low carbon activity. This revised remit will start in Q1 2019 with existing Panel members plus an additional 1 – 2 members.

BP Target Neutral 2018 Progress

2018 was an important year for Target Neutral with the programme having the opportunity to play a role in shaping the Group and Downstream carbon strategy.

This work came to fruition with the launch of BP's 'Advancing the Energy Transition' objectives and the Advancing Low Carbon accreditation programme in April 2018. Target Neutral contributed to 9 of the 33 accredited activities in the Advancing Low Carbon programme and has a major role to play in helping BP grow low carbon offers for its customers.

The Panel considers this a significant step-forward. Although BP Target Neutral has always contributed toward BP's carbon strategy, it has not been clear to the Panel what the exact role of BP Target Neutral has been at Group level and to what extent it has been considered strategic. Panel members have actively pushed BP to develop a set of objectives for BP Target Neutral within a broader BP energy transition strategy and so welcome the introduction of the RIC framework as a positive start, signalling a renewed and broad-business focus on carbon reduction.

This strategy should give Target Neutral the platform to press home its first mover advantage in this space and give the business the impetus to scale carbon neutral customer offers for commercial and carbon benefit. However, as signalled above, the Panel hopes that this new strategy will just be the beginning of BP laying out a pathway aligned to the goals of the Paris Agreement.

Another area of progress which the Panel acknowledges is BP Target Neutral's continued efforts to raise standards and become a leader in high quality offsetting. This is evident in the approach the team takes to carbon management: erring on the side of caution when measuring emissions, ensuring that all feasible emission reductions are made first and then only using the highest quality projects to offset the remaining emissions.



This is reflected in the process for the selection of offsetting projects which is overseen by the Project Selection Forum (Forum for the Future, The Climate Group, Fauna & Flora International). BPTN continued to refine the process applying the UN Sustainable Development Goals (SDGs) to inform shortlisting. Project suppliers were asked to disclose their impact on a range of SDGs, such as good health and wellbeing, affordable and clean energy, decent work and economic growth. BPTN used this information to rank the projects based on their contribution to the SDGs relative to the CO₂e reduced. This provided the detail required for a shortlist, which the Project Selection Forum used to approve for site visits and final selection.

The Panel was also glad that in 2018 the programme once again passed the annual audit against the ICROA's Code of Best Practice (International Carbon Offset & Reduction Alliance).

In 2018, BP Target Neutral continued to make good progress in the development of its offers and customer base with growth in the volume of carbon reduced and offset. In 2018 the programme offset a record 860,875 tCO₂e against a target of 800,000 tCO₂e. This represented an increase of nearly 147,000 tCO₂e on 2017. Over its thirteen years of operation the programme has invested in projects that have offset over 4m tonnes of CO₂e, with an associated investment of nearly €17 million in carbon reduction projects globally. With much of this growth coming over the last 3 years the Panel anticipate the Target Neutral team can build on this and start to develop at an accelerated scale given the opportunity for offsetting presented as part of the new carbon strategy.

2018 represented another positive year for proposition development with three major new propositions going to market, including the roll-out of carbon neutral service stations as part of the retail expansion in Mexico, the launch of Castrol VECTON carbon neutral engine oil for commercial vehicles and the introduction of a carbon offsetting facility in BPme, the fuels payment app.

The Panel is encouraged by the introduction of the offsetting facility in BPme since it represents a move back into the consumer space for BP Target Neutral and is a distinctive innovation for BP. Given that fuels make up a large portion of customer emissions, it is important that motorists have access to an easy way to take action on their emissions, although it is equally important that this includes information and incentives to reduce consumption. BPme is a new BP fuels payment app launched in Australia and the UK in early 2018. It allows motorists to select a feature to offset the carbon emissions from their driving for less than 50 pence a tank. The Panel is keen to see how this offer develops over the next two years with plenty of potential for growth as the app rolls out to other markets. The team will need to focus on getting the IT and marketing support the offer needs to make it a real success.

One of the key objectives the Panel sought for BP Target Neutral in 2018 was to develop scale. To start to deliver against this objective the Target Neutral team has begun focussing on fewer, bigger projects. This has begun to deliver benefits. By the end of 2018 over 200 dealerships worldwide had signed-up to Castrol's carbon offsetting programme. Designed with support from BP Target Neutral, the offer provides auto dealers with the opportunity to get a competitive edge by taking action on carbon emissions. The package provided by Castrol and underpinned by BP Target Neutral includes a supply of carbon neutral lubricants, advice and support to help dealers reduce and offset the emissions from their own operations and the emissions from used and new car sales. In 2018 the programme has grown out of Europe and now includes dealership groups in Mexico and Singapore.

In 2017 the Panel recognised that a key component in driving internal engagement and encouraging the development of customer offers was to establish a reliable and quantifiable way to measure the impact of Target Neutral's activity. In 2018 the team consulted internally on



developing a set of metrics that could be applied to monitor performance across a range of indicators. These have been refined and will be reviewed in Q1 2019.

A 'stress-test' in early 2018 helped to identify areas of process the team could further improve. These included changes to guidance on using carbon neutral certification logos, formalising the process around offset project site visits and how the UN SDG's are applied and communicated. Alongside this work the team updated its marketing communications guidance and its Management Framework. The marketing communications guidance has been developed as a tutorial session for the downstream businesses. This helps to drive consistency in the way carbon neutral products and services are marketed and sold across lubricants, fuels and petrochemicals.

Another key development has been the introduction of the BP Target Neutral Protocol for Carbon Neutrality. The Protocol is based on international best practice but is stripped down to make it easier for smaller businesses to apply. Aimed at automotive dealerships and small airports the protocol is already in use in support of Castrol's Carbon Offsetting offer. The Panel wholeheartedly supports innovation like this and encourages BP Target Neutral to publicise this expertise more broadly and potentially offer it as a service.

Progress against the Panel's Recommendations from Last Year

In 2017 the Panel set BP Target Neutral the challenge of building capacity to become a 1m tCO₂e a year offsetting business in the near future. With an increase in offset volume for 2018 it is clear that the Programme is close to achieving this ambition.

The Panel also set some specific recommendations in 2017 for Target Neutral to work towards in 2018:

BPTN should continue to ensure its future strategy is aligned with and helps accelerate BP's corporate low carbon transition strategy.

2018 was a critical year for Target Neutral team who took the opportunity to both guide and align with the broader BP carbon strategy. This is evident in that offsetting has cemented its place as a valuable tool in BP's 'toolbox' both in terms of helping the Group meet a net zero increase in emissions to 2025 and as an instrument to grow lower carbon customer offers. This strategic guidance was evidenced in the positive discussion that took place at the annual 3C – 'Climate, Carbon & Customers' event in November, at which BP's Deputy Chief Executive, Lamar McKay, stated the importance of offsetting and Natural Climate Solutions in helping BP and its customers advance the low carbon agenda.

BPTN needs to be selective about the offers it develops in 2018 and should focus attention on the areas which promise the best opportunities for growth and structural low carbon change. The Panel would like to see the team align business objectives with Lubricants, Fuels, Petrochemicals and service brands (growth, margin increase/defend, new markets, differentiation) to deliver effective carbon neutral propositions.

The Panel commend the team on taking a more focused view on offer development in 2018. The team was restructured to align the Business Development managers with the BP businesses, creating improved focus on proposition development. The team reduced the number of product launches and invested more time and effort in expanding existing offers like the Castrol Carbon Offsetting programme for dealerships and supporting the fuels business to develop and launch the first 'built-in' offsetting facility for motorists with BPme. This type of innovation builds on Target



Neutral's heritage but also helps BP maximise its leadership in carbon offsetting which can create commercial opportunities and catalyse emissions reduction.

BPTN should monitor growth in demand for VERs and explore options for long-term supply, including multi-year partnerships. BPTN should consider the appropriate geographical spread, offset technologies and the desired environmental and social impact, while also ensuring that its offer continues to be distinctive in the market. BPTN should strive to be a market leader in carbon reduction and offsetting strategies and measure its success in this area.

The Target Neutral team completed a global RFP for VERs at the end of 2018. The process aimed to broaden the range of carbon reduction technologies across the offsetting project portfolio, create longer-term partnerships where relevant/possible and increase the spread of geographies. Whilst the final shape of the portfolio won't land until early Q1 2019 the Panel is encouraged by the agreements made in principle which will see some existing supply agreements extended, new technologies enter the portfolio and new countries added such as Indonesia and Brazil.

We encourage BPTN to become more active in the debate around offsetting and lift the profile of the work it is doing externally. The team could voice opinion on the value of offsetting to drive the pace of carbon reduction at low abatement cost, promote the fair cost of abatement, comment on how credits should be used, matching carbon reduction strategies with the right kind of carbon credits and advice on best practice governance in offsetting.

With 2018 focused on internal alignment and the development of the Group strategy there was limited time for external engagement. The team worked with IETA and ICROA to develop industry views on the role of voluntary offsetting in the Paris agreement, and how to encourage business participation.

The 3C event in November which was attended by NGOs such as The Nature Conservancy, Conservation International and corporates like Heathrow and Microsoft, who are leaders in offsetting, should give BP and Target Neutral the confidence to take this work externally. This is something the Panel would like to see in 2019 and suggests that it could be achieved in partnership with the Advancing Low Carbon programme.

The Panel encourages BPTN to populate the proposed measurement criteria and deliver a robust platform for future performance management. This should help the team target and accelerate ideas and also align with corporate strategy and international climate goals.

Robust performance management in BP Target Neutral is carried out through a range of reporting and business management tools, including the Commercial tracker (a sales pipeline tool), the Carbon Tracker (VER tracking and retirements), the reporting framework for the Panel meetings as well as the Management Framework. The latter was shared with the Panel at the 3Q meetings having gone through an extensive update and provides an excellent documentation of all key processes in the business.

Following the release of the new carbon strategy and RIC framework, the Panel look forward to understanding what the BPTN KPIs are to inform this strategy.

Final remarks

With the renaming of the BPTN AAP and its revised remit, this will be the last formal assurance statement in this format that the Panel publishes, although the Panel will continue to produce a one-page summary of the major achievements, opportunities and challenges each year. The Panel



has been impressed by the dedication of the BPTN team and its commitment to make the case for carbon reductions and offsetting both within and outside BP.

While the volume of emissions offset has not grown at the pace that the panel hoped, the seeds sown in the first decade are now beginning to bear fruit: BP Group has the genesis of a comprehensive climate change strategy that includes offsetting and many of the company's business units are either developing or have rolled out carbon neutral products and services. Most importantly they have done so in a way that is both credible and good for business.

The Panel encourages BP and BPTN to continue to build on this work and ensure that the ongoing strategy is ever more closely aligned with the Paris Agreement; in turn, the Panel offers its ongoing support for this innovative and essential part of the business.

SIGNED

Rita Clifton, Mark Kenber, Mike Barry, Peter Wheeler

Members have been invited to sit on the Panel in their individual capacity not as representatives of their respective organisations. The exception to this is Peter Wheeler who is representing The Nature Conservancy.

THE REMIT OF THE PANEL

Our purpose is to provide independent advice and assurance to Target Neutral, including:
Advising and providing critical challenge on the strategic direction and on the operational running of the initiative.

Monitoring the initiative's progress.

Providing proper overview and coordination of the educational elements of the initiative, notably around improving carbon literacy and stimulating behaviour change.

Providing a high-level assurance function on the offset project selection process.

Reporting to stakeholders on the initiative's policies, systems, processes and performance.